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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/07

SPONSOR Carraro LAST UPDATED _____ HB _____

SHORT TITLE Armed Services Income Tax Exemption SB 492

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
(\$2,950.0)	(\$11,990.0)	(\$10,400.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Bills Introduced So Far

207	H	Cote	ARMED FORCES INCOME TAX EXEMPTION ARMED SERVICE RETIREE INCOME TAX EXEMPTION
368	H	Sandoval	MILITARY RETIREMENT PAY TAX EXEMPTION
497	H	Foley	ARMED FORCES INCOME TAX EXEMPTION
541	H	Anderson	MILITARY PENSION INCOME TAX EXEMPTION
43	S	Robinson	ARMED SERVICES INCOME TAX EXEMPTION
492	S	Carraro	MILITARY PENSION INCOME TAX EXEMPTION
493	S	Carraro	ARMED SERVICES INCOME TAX EXEMPTION

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 492 exempts income earned from active duty service from the state personal income tax. The effective date is January 1, 2007 so would apply for tax year 2007.

FISCAL IMPLICATIONS

Exempting active duty salaries from personal income tax would result in a \$10 million reduction in personal income tax revenues going to the general fund. Since the tax year straddles two fiscal years, the FY07 impact is \$3 million, reflecting 30 percent of the tax year and the FY08 impact is \$12 million, which include 70 percent of tax year 2007 and 50 percent of tax year 2008.

According to TRD, the fiscal impact is based on approximately 7,000 active duty military in New Mexico earning an average \$45,000 per year as well as an additional 3,000 active duty National Guard and army reserve members. The average tax relief to service members would be \$1,350 and \$133 for National Guard and army reserve members.

ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed measure would impose relatively minor administrative impacts on the Taxation and Revenue Department. Provisions of the proposal could be administered with resources currently available to the Department.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

There are several bills that have been introduced to exempt active duty military pay, military retirement income, and earned income of military retirees. HB207 exempts all income for active duty military. HB 368 exempts earned income by military retirees up to \$50 thousand. SB 43, SB 493 and HB 497 exempt military pension income.

TECHNICAL ISSUES

According to the Department of Defense, “Active Duty” refers to “Full-time duty in the active service of a Uniformed Service, including fulltime training duty, annual training duty, and attendance while in the active service at a school designated as a Military Service school by law or by the Secretary concerned.” SB492 refers to “active service” which is presumed to mean “active duty” though clarification may be a necessary correction.

TRD notes that, as written, the measure could be interpreted to include an exemption for federal personal income tax obligations. It should be amended to clarify that it does not.

SB492 does not distinguish between residents and non-residents.

OTHER SUBSTANTIVE ISSUES

By reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability. Hence the net taxpayer benefit would be less than the \$1,575 per claimant mentioned above. The \$1,575 in state tax savings would, for example, be reduced to \$1,260 ($\$1,575 \times .8$) for a taxpayer in the 20% federal tax bracket.

NF/nt